

Garvin County Rural Water District #1

Annual Financial Report

For the Fiscal Year Ended October 31, 2013

Garvin County Rural Water District #1
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BASIC FINANCIAL STATEMENTS



KRISTI L. DOBBINS

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Rural Water District #1, Garvin County, Oklahoma

Report on the Financial Statements

I have audited the accompanying modified cash basis financial statements and related notes to the financial statement of Rural Water District #1, Garvin County, as of October 31, 2013, and for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of Rural Water District #1, Garvin County as of October 31, 2013; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

Basis of Accounting

I draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Rural Water District #1, Garvin County has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued a report dated November 5, 2014 on my consideration of the Rural Water District #1, Garvin County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



Pauls Valley, Oklahoma
November 5, 2014

Garvin County Rural Water District #1
Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis
October 31, 2013

ASSETS

Current Assets:

Cash and cash equivalents	\$ 128,736
Certificates of deposit	172,941
Inventory	<u>12,977</u>

Total Current Assets 314,654

Plant, Property and Equipment:

Capital assets, net of depreciation	<u>810,911</u>
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Total Assets \$ 1,125,565

LIABILITIES AND NET ASSETS

Current Liabilities:

Current portion of long-term debt	<u>\$ 32,683</u>
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Total Current Liabilities 32,683

Noncurrent Liabilities:

Notes payable	<u>347,497</u>
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Total Liabilities 380,180

Net Assets:

Invested in capital assets, net of debt	424,648
Unrestricted	<u>320,737</u>

Total Net Assets \$ 745,385

The notes to the financial statements are an integral part of this statement.

Garvin County Rural Water District #1
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended October 31, 2013

Operating Revenue:	
Water sales	\$ 249,442
Meter benefits	21,000
Late penalties	3,438
Miscellaneous	5,742
Total Operating Revenue	<u>279,622</u>
Operating Expenses:	
Payroll	74,542
Depreciation	58,335
Maintenance, repairs and supplies	23,624
Water purchases	25,743
Employee benefits	11,189
Contract labor	5,846
Utilities	9,151
Accounting, legal, and bank	25
Insurance	9,138
Vehicle expense	5,192
Office expense	5,727
Annual meeting	2,786
Memberships and water testing	1,638
Interest Expense	15,745
Total Operating Expenses	<u>248,681</u>
Income from Operations	<u>30,941</u>
Nonoperating Revenue (Expense):	
Grant Income - Pevine Creek Washita River Bridge Project	44,900
Interest Revenue	1,813
Net Nonoperating Revenue	<u>46,713</u>
Net Change in Net Assets	77,654
Net Assets, beginning of year	<u>667,731</u>
Net Assets, end of year	<u><u>\$ 745,385</u></u>

The notes to the financial statements are an integral part of this statement.

Garvin County Rural Water District #1
Statement of Cash Flows – Modified Cash Basis
For the Year Ended October 31, 2013

Cash Flows from Operating Activities:

Cash received from customers	\$ 279,622
Cash payments to suppliers for goods and services	(83,832)
Cash payments to employees for services	(85,731)
Net Cash Provided by Operating Activities	<u>110,059</u>

Cash Flows from Capital Financing Activities:

Principal paid on capital debt	(31,380)
Interest paid on capital debt	(15,745)
Purchase of fixed assets	(69,907)
Net Cash Used by Capital Financing Activities	<u>(117,032)</u>

Cash Flows from Investing Activities:

Cash paid to purchase investments	(1,841)
Grant Revenues	44,900
Interest revenue	1,813
Net Cash Provided by Investing Activities	<u>44,872</u>

Net Increase in Cash and Cash Equivalents 37,899

Cash and Cash Equivalents, beginning of year 90,837

Cash and Cash Equivalents, end of year \$ 128,736

***Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:***

Operating Income \$ 30,941

Adjustment to Reconcile Operating Income to

Net Cash Provided by Operating Activities:	
Depreciation	58,334
Interest on Capital Debt	15,745

Net Cash Provided by Operating Activities \$ 110,059

Noncash Capital Financing Activities

Interest paid \$ 15,745

The notes to the financial statements are an integral part of this statement.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Garvin County Rural Water District #1 (“District”) is a rural water district created and existing under Title 82 Oklahoma statutes 1981, Section 1324.1-1324.26 as amended. As a numbered water district, it is considered to be a governmental unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District is a proprietary fund that accounts for activities related to the provision of water services to businesses and residents.

The District’s proprietary fund is accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Inventory is recorded as an asset when purchased.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

C. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

For purposes of the statement of cash flows, the District considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

The District's investment activities are governed by the Oklahoma State Statute Title 62 Section 348.1. The statute defines the types of securities authorized as appropriate investments as follows:

- I. Direct obligations of the United State Government, its agencies or instrumentalities to the payment of which the full faith and credit of Government of the United States is pledged, or obligations to the payments of which the full faith and credit of the State of Oklahoma is pledged;
- II. Collateralized or insured certificate of deposits of savings and loan associations, banks, savings banks and credit unions locating in the state when properly collateralized as provided in Section 516.3 of Title 62 or fully insured certificates of deposit at banks, savings banks, savings and loan associations and credit unions located out of state.
- III. Savings accounts or saving certificates of savings and loan associations, banks, and credit unions, to the extent that the accounting or certificates are fully insured by the Federal Deposit Insurance Corporation.
- IV. Bonds of cities, school districts or counties within the State of Oklahoma.

Inventories

All inventories are valued at cost using the first-in / first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include equipment, buildings, building improvements and water system assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

C. Assets, Liabilities and Net Assets or Equity – (continued)

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives of five to thirty years.

Net Assets

Net assets are divided into two components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

II. Deposits & Investments

Deposit Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance Corporation. At October 31, 2013, the bank balance was \$313,582. This entire amount was insured and collateralized. The City held \$172,741 in a certificate of deposit at the bank at year end, and was insured. Of the \$172,741 in certificates of deposit, \$100,000 is pledged as collateral for a bank note.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2013

III. Capital Assets

Capital asset activity for the year ended October 31, 2013 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Water Rights	94,497	-	-	94,497
<i>Total Capital Assets, not being depreciated</i>	<u>\$ 97,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,997</u>
Equipment	\$ 80,987	\$ -	\$ -	\$ 80,987
Building	137,000	-	-	137,000
Building Improvements	2,204	2,368	-	4,572
Office Equipment	12,819	545	-	13,364
Water System	1,474,642	66,995	-	1,541,637
<i>Total Capital Assets, being depreciated</i>	<u>1,707,652</u>	<u>69,908</u>	<u>-</u>	<u>1,777,560</u>
Less: Accumulated Depreciation	<u>1,006,311</u>	<u>58,335</u>	<u>-</u>	<u>1,064,646</u>
<i>Total Capital Assets, being depreciated net</i>	<u>\$ 701,341</u>	<u>\$ 11,573</u>	<u>\$ -</u>	<u>\$ 712,914</u>
<i>Total Capital Assets, net</i>	<u>\$ 799,338</u>	<u>\$ 11,573</u>	<u>\$ -</u>	<u>\$ 810,911</u>

IV. Long-Term Liabilities

A summary of long-term liability activity for the year ended October 31, 2013, is as follows:

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Due within One Year</i>
Marcum Building Note Payable	\$ 116,178	\$ -	\$ 10,987	\$ 105,191	\$ 11,549
Pauls Valley National Bank	86,338	-	9,124	77,214	9,448
Oklahoma Water Resources Board	209,044	-	11,269	197,775	11,686
	<u>\$ 411,560</u>	<u>\$ -</u>	<u>\$ 31,380</u>	<u>\$ 380,180</u>	<u>\$ 32,683</u>

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2013

IV. Long-Term Liabilities

Long-term liabilities at October 31, 2013, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Original Issue Amount	Outstanding at October 31, 2013
Oklahoma Water Resources Board Note Payable (financed construction of new water tower)	March, 2028	3.05%	\$ 264,587	\$ 197,775
Pauls Valley National Bank (purchase of water rights)	February, 2021	3.50%	90,047	77,214
Marcum Building Note Payable (purchase of buildings)	June, 2021	5.00%	135,000	105,191

As of October 31, 2013, annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2014	32,683	14,369
2015	34,023	13,029
2016	35,419	8,634
2017	36,874	10,178
2018	38,392	8,661
2019-2023	142,305	21,962
2024-2028	60,484	4,306
	<u>\$ 380,180</u>	<u>\$ 81,139</u>

The loan agreement provides, among other things, that annual net revenues (gross revenues less operating and maintenance expenses excluding interest expense, depreciation, capital expenditures and reserve replacement) received by the District are pledged for the payment of the interest and timely retirement of debt. The District at all times will maintain schedules of rates and charges for services rendered through the mortgaged property which will provide annual net revenues available for debt service equal to not less than one and one-quarter (1.25) times the maximum annual amount required for the debt service.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2013

V. Risk Management

The District is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Physical Property and Automobile Liability/Physical Damage

General liability, physical property and automobile liability/physical damage are insured through the Oklahoma Rural Water Association Assurance Group risk entity pool. Deductibles range from \$250. Risk of loss retained is limited to the excess of insurance liability coverage limits set by ORWA.

Worker's Compensation

Workers' compensation is insured through Rural Water Association Assurance Group. Risk of loss retained is limited to the excess of insurance liability coverage limits set by Rural Water Association Assurance Group.

***SUPPLEMENTARY
INFORMATION***

Garvin County Rural Water District #1
Supplemental Schedule I - Schedule of Debt Service Requirement
For the Year Ended October 31, 2013

Below is an analysis of revenue maintenance requirement for the year ended October 31, 2013:

Maximum Annual Debt Service Requirements	\$ 38,392
	<u>125.00%</u>
Net Revenues Requirement	<u>\$ 47,990</u>
Operating Revenue	279,622
Operating Expenses	(248,681)
Add Back:	
Depreciation	58,335
Interest Expense	<u>15,745</u>
Net Revenue Available for Debt Service	<u>105,021</u>
Excess of Net Revenue over Maximum Annual Debt Service Requirements	<u><u>\$ 57,031</u></u>

***INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL
AND COMPLIANCE***



KRISTI L. DOBBINS

Certified Public Accountant

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 5, 2014

Board of Directors
Rural Water District No. 1
Garvin County, Oklahoma

I have audited the basic financial statements of Rural Water District #1, Garvin County (the District) as of and for the year ended October 31, 2013, and have issued my report thereon dated November 5, 2014 which was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. Except as noted in my report dated November 5, 2014, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The District did not present the Management's Discussion and Analysis that is required by the Governmental Accounting Standards Board to supplement, although, not be a part of the basic financial statements.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District #1, Garvin County's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I consider the following to be a material weakness. Other material weaknesses may exist that have not been identified.

Rural Water District #1, Garvin Co., Oklahoma
November 5, 2014

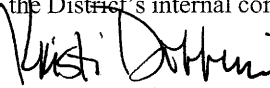
An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual receiving payments for utility billings would not be the same as the individual doing the billing, making the deposits and maintaining accounts receivable. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur. This condition has been discussed with management, and management has concluded that the cost to correct this condition would exceed the benefit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Kristi L. Dobbins, CPA